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SUBJECT: Scencesetter for Deputy Secretary Lew's February 15-16 Visit to Cairo

CLASSIFIED BY: Margaret Scobey, Ambasssador, State; REASON: 1.4(B), (D)

¶1. (C) Deputy Secretary Lew, we warmly welcome you to Cairo and are seeking meetings with Prime Minister Nazif, Foreign Minister Aboul Gheit, and Minister of International Cooperation Aboulnaga. While we continue to work closely and effectively with Egypt on the range of critical regional issues, our bilateral discussions, particularly relating to human rights, civil society and democracy, and their relationship to the ESF program, remain difficult at times. President Obama's speech here in June helped immensely to broaden this conversation, making it clear that the US intends to work in partnership with Egypt and our regional allies to meet the challenges the people and governments of the region face. However, we have also been clear that the U.S. considers democracy and development two sides of the same coin, and that our policy toward assistance will reflect that principle.

¶2. (C) Your interlocutors may convey their disappointment that the new Administration has yet to respond fully to their proposal for restructuring U.S. economic assistance to Egypt. In particular they seek the Administration's intentions for the next five-ten years, noting not only that such a multi-year perspective has been the norm for the US-Egypt ESF relationship, but also that the GOE cannot adequately plan multi-year projects without reference to expected sources of foreign assistance. They may also raise GOE objections to continued U.S. funding, through non-ESF funds, of non-registered Egyptian civil society organizations. You will hear a different view during your visit from some of our civil society interlocutors and have an opportunity to reassure them of the Administration's continuing support for Egypt's economic development and political reform.

Aid: Pillar of a Strategic Partnership ...

¶3. (C) Egypt's leading position among pro-Western Arab governments aligns it with key U.S. strategic goals, including comprehensive Arab-Israeli peace, countering Iranian ambitions, supporting U.S. military efforts in Iraq and Afghanistan, and counter-terrorism cooperation. As a cornerstone of our bilateral relations, U.S. assistance, both ESF and FMF, has nurtured Egypt's strong support for U.S. regional policies while also serving as a visible symbol of U.S. commitment to Egypt and the welfare of its people.

... and a Source of Tension

14. (C) In recent years, however, as ESF funds have declined, and democracy and civil society have been emphasized, the assistance relationship has become at times as much a source of tension as a symbol of partnership. Tensions over the U.S. approach to democratic reform and human rights led to an impasse when the previous multi-year ESF agreement expired. Without consultation with Egypt, the U.S. cut the ESF program by over 50 percent from \$415 million in FY2008 to \$200 million in FY2009 but promised to sustain this level for five years. The GOE never accepted this unilateral decision and effectively suspended negotiations on FY2009 program implementation. Only the assurance that conditionality language would not reappear in 2009 and the Obama administration's agreement to raise the ESF level to \$250 million for 2010 and to respect previous agreements to fund only registered NGOs via bilateral ESF smoothed the way to resume programming for 2009 and beyond. The subsequent addition of \$50 million via the FY2009 supplemental for North Sinai development was welcomed by the GOE but has created new challenges as the MIC seeks to rewrite standard USAID agreements to reflect the sensitive nature of the Sinai programs.

Recasting the Assistance Relationship

15. (C) Minister of International Cooperation (MIC) Fayza Aboulnaga has told us that the GOE seeks to end all ODA programs for Egypt within ten years based on their projections of economic growth. Aboulnaga has been the most vocal and unrelenting advocate of restructuring the U.S.-Egyptian assistance relationship. (We note that most of the line ministries in the government continue to seek and appreciate the traditional role that USAID has played.) She is the originator of the mega-endowment proposal (\$3.6 billion over ten years), that would eliminate ESF over ten years, and, in her view, significantly limit the likelihood of political conditions being placed on endowment funding. She will argue that the proposal reflects a more mature U.S.-Egypt relationship that would set the stage for the eventual closure of the USAID Mission to Egypt.

16. (C) Although the Egyptians are aware that their ambitious multibillion dollar endowment concept has found no support in Washington, they will likely pursue the concept even if a scaled down version. The Minister of International Cooperation may press the case for directing current Egyptian ESF-loan repayments to the endowment, noting that it is "not right" that ESF appropriations are less than GOE debt repayments to the U.S. She has been told clearly and repeatedly that debt repayments to the U.S. will not be part of discussions on assistance but continues to pursue this goal. Aboulnaga has also led the campaign to halt all USG-funding of non-registered NGOs and may possibly raise with you the DRL and MEPI funding of such organizations. Egypt has also steadfastly refused to register NGOs such as IFES, ABA, NDI, and IRI, thought the GoE tolerates their activity here.

Slow Roll on Sinai

17. (C) Our effort to conclude negotiations to obligate the FY 2009 \$50 million supplemental for assistance to the Northern Sinai has moved at a glacial pace. Out of respect for the very real security concerns in the Sinai, we agreed early on that the U.S. would keep a very low profile on the Sinai projects and allow GOE ministries to implement the contracts directly. MIC has, nevertheless, haggled over every element of the agreement process, possibly in an effort to establish new bilateral precedents that would govern future USAID projects in Egypt. We hope that you stress to the Egyptians that demonstrating credible and timely implementation of the Sinai projects will be an important justification for ongoing ESF support for Egypt. While the U.S. respects the security challenges in the Sinai, we do not understand the excruciating focus on changing language that has been used in countless previous agreements.

More to Be Done

18. (C) Although Egypt, with large-scale U.S. funding, has made significant development progress in a broad range of areas, daunting development challenges remain. There is broad bilateral agreement that future U.S. assistance should focus on human capacity development, with a focus on education and training, strengthening civil society, building institutional capacity to sustain key services, and augmenting Egypt's competitiveness. In conveying a vision of what our assistance program will look like in the coming years you would help signal a return to normalcy in our assistance relationship.

19. Key points for your meetings with GOE officials may include the following:

- Express that the U.S. regards long-term development assistance as a key component in fostering a mutually beneficial bilateral relationship.

- Reiterate that it is premature to discuss the phase-out of the ESF program. President Obama laid out an ambitious agenda for partnering with our allies in the region, including on education, S&T, entrepreneurship, and civil society. We need Egypt to be a part of that. (Note: the Mission strongly recommends sharing with the GOE the Administration's intentions with regard to future ESF levels.)

- Reaffirm the U.S. commitment to development in the Sinai and convey the urgency to begin implementation of program activities there.

- Reaffirm that the U.S. cannot support an endowment proposal of the magnitude the GOE envisions, or one that includes debt relief.

- Confirm the intention of the U.S. to provide a counterproposal on a possible endowment funded by ESF but one that begins on a smaller scale than that proposed by the GOE.

- Emphasize that the U.S will remains committed to providing assistance, through a variety of programs, that bolsters Egypt's civil society, helps Egypt expand the protection of basic human rights, and enhances government transparency. Registering respected U.S. and international NGOs such as IFES, ABA, NDI and IRI would send the right signal.

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